LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6777
BILL NUMBER: SB 232

NOTE PREPARED: Feb 7, 2003
BILL AMENDED: Feb 6, 2003

SUBJECT: Community Revitalization Enhancement District.

FIRST AUTHOR: Sen. Riegsecker
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows a municipality to be designated a community revitalization enhancement district if the municipality: (1) is located in a county containing a manufacturing-concentrated workforce of more than 40% of the workforce in the county; and (2) contains a vacant building that is at least 900,000 square feet and was constructed before 1940.

Effective Date: July 1, 2003.

Explanation of State Expenditures: Under current law, the state Budget Committee must review and make a recommendation to the Budget Agency after they are notified of a designation of a community revitalization enhancement district (CRED). The Budget Agency must approve the resolution designating the district. The Department of State Revenue (DOR) must calculate the base income tax amount and the base gross retail amount for the district. The State Treasurer must establish an incremental tax financing fund for the county that establishes the district. Money in the fund does not revert to the state General Fund at the end of the fiscal year. The DOR and the State Budget Agency must annually estimate and certify the amount of income tax and sales tax which will be collected from the district.

Explanation of State Revenues: (Revised) *Community Revitalization Tax Credit:* This bill allows certain municipalities to establish a CRED. Taxpayers in a new district would be entitled to a Community Revitalization Tax Credit which was established in P.L. 125-1998. The tax credit is available for qualified investment made for the redevelopment or rehabilitation of property located within a CRED. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce.

The tax credit is based on 25% of the qualified investment. The tax credit may be used to reduce the taxpayer's tax liability under the following Taxes: Adjusted Gross Income, County Adjusted Gross Income, County Option Income, County Economic Development Income, Insurance Premiums, and Financial Institutions. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer may assign any part of the credit to a lessee of the property redeveloped or rehabilitated but must be in writing and reported to the Department of State Revenue.

A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. Since the Industrial Recovery Site credit was established in 1987, 30 buildings have been approved for approximately $29 M in credits. These credits were based on an estimated $133.3 M of qualified investments. The credits ranged from $50,000 to $9 M with the average credit being approximately $1 M for an average of $5 M of qualified investments.

Tax Increment: This bill will allow certain municipalities to capture up to $1 M of the incremental taxes annually which is generated in the district. This revenue will be transferred to the county's Industrial Development Fund. The covered taxes which will be included are Sales Tax, Adjusted Gross Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax. State sales and income taxes are generally deposited in the state General Fund and Property Tax Replacement Fund. The state would be forgoing any new income or sales tax revenue up to $1 M per year that is generated by the development in the CRED. The tax loss from the establishment of this district is restricted to 15 years.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Community Revitalization District:* This bill allows for the establishment of a CRED in a municipality that:

1) is located in a county with a workforce with more than a 40% manufacturing concentration; and
2) has at least 900,000 square feet of usable space constructed before 1940 that have been vacant for at least one year due to an employer's relocation.

An ordinance must be approved or a resolution adopted by the municipality's legislative body before an application can be made to an advisory commission on industrial development. An advisory commission on industrial development that is considering the designation of this type of district must include three additional members. The Governor, Lieutenant Governor, and Director of the Department of Workforce Development must each appoint one of these members.

The advisory commission may adopt a resolution designating a particular area as a CRED after making the following findings:

1) The area must have at least 900,000 square feet of floor space that is or will become vacant due to the relocation of an employer.
2) There must be 1,000 fewer employees in the area than 10 years ago.
3) There must be significant obstacles to redevelopment.
4) The taxing unit must have appropriated or pledged $100,000 for addressing the redevelopment obstacles.

According to data compiled by the Indiana Business Research Center from Department of Workforce Development data, the Elkhart-Goshen metropolitan statistical area (MSA) was the only MSA that in December, 2002, had manufacturing employment exceeding 40% of total employment. The Elkhart-Goshen MSA is comprised only of Elkhart County.

Tax Increment: This bill will allow the district to capture the incremental taxes which are generated from new development in the district. This revenue is to be deposited in the Industrial Development Fund. The covered taxes which will be included are Sales Tax, Adjusted Gross Income Tax, CAGIT, COIT, and CEDIT. The local taxing units which would normally receive a share of the total local option income taxes generated in this district under current statute will not receive the incremental revenue generated. The bill allows money in the Industrial Development Fund to be pledged by the advisory commission to pay debt service on bonds and to maintain a debt service reserve fund.

The establishment of the CRED and the capture of these incremental taxes will be subject to local action and the ability of a community to meet the requirements set out in this bill. The district is limited to 15 years.

Current law also allows all taxing units, except townships, to impose a levy for the Industrial Development Fund at a rate of up to $0.0167 per $100 of assessed valuation. The proceeds from the tax levy may be pledged for the payment of bonds and obligations issued in a CRED.

State Agencies Affected: The Department of Commerce; the Department of State Revenue; Treasurer of State; Budget Agency.

Local Agencies Affected: Municipalities; Advisory Commission on Industrial Development.

Information Sources: The Department of Commerce; Indiana Business Research Center at Indiana University; Department of Workforce Development.

Fiscal Analyst: Bob Sigalow, 317-232-9859